

Message Text

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ACTION EUR-12

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SUBJECT: GOVERNMENT ANNOUNCES THIRD SET OF ECONOMIC MEASURES

REF: MADRID 6027, MADRID 6219

1. FOLLOWING ANNOUNCEMENTS EARLIER THIS MONTH OF TWO GENERALLY EXPANSIONARY SETS OF ECONOMIC MEASURES (REFTELS), COUNCIL OF MINISTERS AUGUST 24 APPROVED FORTHER PACKAGE DESIGNED TO INCREASE TAX REVENUES AND TO DEAL WITH THE TRADE DEFICIT, MAINLY THROUGH EXPORT EXPANSION. WHILE IT IS IMPOSSIBLE TO QUANTIFY EXACTLY THE EFFECTS OF ALL THOSE MEASURES TAKEN SO FAR THIS MONTH, THE MOST RECENT ONES SHOULD SERVE TO BALANCE, AT LEAST IN PART, THE INCREASED EXPENDITURES AND REDUCTIONS IN REVENUES PROVIDED BY THE EARLIER MEASURES. ACCORDING TO MINISTER OF FINANCE CARRIES THE VARIOUS MEASURES TAKEN THIS MONTH SHOULD ENABLE THE GOVERNMENT TO HOLD ITS BUDGETARY DEFICIT TO SAME LEVEL AS 1975 (WHEN IT WAS ABOUT \$120 MILLION). THE NEW PROPOSALS BECAME EFFECTIVE AUGUST 25 AND PROVIDE FOR THE FOLLOWING:

A) A 1.75 TO TWO PESETA PER LITER INCREASE IN

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GASOLINE, RAISING PRICES TO \$1.56 - \$1.67 PER GALLON.

THIS IS EXPECTED TO BRING GOVERNMENT ADDITIONAL
9 BILLION PESETAS IN REVENUE ANNUALLY;

B) A 10 PERCENT TEMPORARY SURCHARGE FIGURED ON
EXISTING TAX ON MOST LUXURY ITEMS;

C) A SIMILAR SURCHARGE ON INHERITANCE AND TRANSFER TAXES;

D) CERTAIN FISCAL INCENTIVES TO ENCOURAGE EXPORTS;

E) CREATION OF AN OFFICIAL AID FUND FOR GOS LOANS
TO FOREIGN GOVERNMENTS AND FOREIGN OFFICIAL
INSTITUTIONS FOR PURCHASE OF SPANISH GOODS AND
SERVICES. FUND TO HAVE UP TO 12 BILLION PESETAS BY 1977, DERIVED
FROM NORMAL GOS BUDGET.

THE COUNCIL OF MINISTERS ACCORDING TO PRESS REPORT ALSO
APPROVED INCREASE IN TARIFFS ON LUXURY ITEMS FROM 6-12
PERCENT BUT OFFICIAL ANNOUNCEMENT OF THIS HAS NOT YET
BEEN MADE.

2. NONE OF THE ECONOMIC MEASURES ANNOUNCED SO FAR BY
THE NEW SUAREZ GOVERNMENT SEEMS LIKELY TO HAVE A MAJOR
IMPACT ON SPAIN'S TWO MOST URGENT PROBLEMS, INFLATION
AND THE BALANCE OF PAYMENTS DEFICIT, OR ON THE TOTAL
PERFORMANCE OF THE ECONOMY. GIVEN THE CURRENT POLITICAL
SITUATION AND THE FACT THAT THE GOVERNMENT HAS PUBLICLY
DESCRIBED ITSELF AS AN INTERIM GOVERNMENT, IT ISN'T
SURPRISING THAT A MORE AMBITIOUS APPROACH IS NOT BEING
ATTEMPTED IN THE ECONOMIC SPHERE.

3. THE NEW MEASURES STRIKE US AS A MOVE IN THE RIGHT
DIRECTION, HOWEVER, PARTICULARLY INsofar AS A REDUCED
GOVERNMENT DEFICIT WILL HELP HOLD DOWN INFLATION. THE
MEASURES ANNOUNCED EARLIER WERE WORRISOME BECAUSE OF THE
INCREASE ON THE GOVERNMENT DEFICIT WHICH THEY IMPLIED
THROUGH VARIOUS EMPLOYMENT STIMULATION PROGRAMS,
AGRICULTURAL SUBSIDIES, AND INVESTMENT AND PUBLIC HOUSING
TAX CREDITS. WHAT GOS HANDED OUT EARLIER, IT IS NOW,
AT LEAST IN PART, TAKING BACK WITH MEASURES DESIGNED TO
BOOST TAX REVENUES.

4. HOW SIGNIFICANT THE EXPORT PROMOTION MEASURES ARE
IS IMPOSSIBLE TO GUAGE, AS SOME COMPLICATED TAX PROVISIONS
ARE INVOLVED. WHILE THERE IS APPARENTLY AN IMPENDING
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ANNOUNCEMENT OF TARIFF INCREASES ON LUXURY ITEMS, THE
SPANISH ARE CONTINUING TO DEAL WITH THEIR ENORMOUS TRADE
DEFICIT MAINLY BY ATTACKING THE EXPORT SIDE.

5. IT HAS BECOME INCREASINGLY OBVIOUS TO THE GOS THAT
ITS INFLATION AND BALANCE OF PAYMENTS PROBLEMS ARE REAL,
MAJOR, AND GROWING, BUT, PERHAPS UNDERSTANDABLY, THE
GOVERNMENT CONTINUES WITH ITS EYE TURNED MAINLY TOWARD

THE POLITICAL SCENE. FOREIGN EXCHANGE RESERVES AT THE
END OF JULY WERE JUST OVER \$5 BILLION (VS \$5.9 BILLION
AT THE BEGINNING OF 1976) AND THE PRESENT TOURIST SEASON
IS PROVING CONSIDERABLY LESS SUCCESSFUL THAN HOPED FOR.
THE GOS NOW HAS A \$1 BILLION FOREIGN CREDIT PACKAGE TO
DRAW ON AND PERHAPS, WITH IT, AN UNDULY COMFORTING SENSE
OF BREATHING ROOM. FUTURE LOAN PACKAGES LIKE THIS WILL
COME ONLY ON HARDER TERMS AND WITH INCREASED
ARM TWISTING, PARTICULARLY IF INFLATION REMAINS AT THE
PRESENT HIGH LEVEL OF 17-20 PERCENT, AND THE BALANCE OF
PAYMENTS DEFICIT CONTINUES LARGE. AS A RESULT, IT IS
NOT SURPRISING THAT THE ROYAL DECREE-LAW INTRODUCING THE
NEW MEASURES RECOGNIZES "THE NEED TO DEAL WITH ECONOMIC
DEMANDS THAT CAN NO LONGER BE POSTPONED." THE MOST
RECENTLY ANNOUNCED MEASURES MAY LIMIT FUTURE PROBLEMS
TO SOME DEGREE. HOWEVER, WITH NO NOTICEABLE IMPROVEMENT
IN THE BALANCE OF PAYMENTS PICTURE LIKELY THIS YEAR AND
WITH INFLATION IN 1976 LIKELY TO BE 4-6 PERCENT HIGHER
THAN A YEAR AGO, THE ECONOMIC PROBLEMS WHICH ANY NEWLY
ELECTED GOVERNMENT CAN EXPECT TO INHERIT IN 1977 ARE
ALMOST CERTAIN TO BE MORE ACUTE THAN AT PRESENT.
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